

Fiscal Note

Fiscal Services Division



SF 387 – City Self-Funded Debt (LSB 1761SV)

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Fiscal Note Version – New

Description

Senate File 387 authorizes cities to borrow money from surplus funds in reserve accounts or funds in order to self-finance general or essential corporate purpose bond projects. The Bill requires the city to levy taxes to be deposited to the debt service fund in an amount sufficient to pay the principal and interest on such loans. The reserve funds or accounts of city utilities or combined city utilities are exempted from the provisions of this Bill, and borrowing from those funds or accounts is prohibited.

This Bill specifies that such loans cannot cause the balances in reserve accounts or funds to fall below any minimum prescribed by law. “Surplus” is defined as the cash balance available in a fund or account in excess of the amount of expenses and disbursements made in the previous three months plus the amount of transfers, payments, or disbursements required in the following three months. A loan issued under the provisions of this Bill must not result in a user fee, rate, or property tax increase.

This Bill requires that loan agreements issued under the new provisions establish an interest rate on the loan between 50.0% and 100.0% of the average interest rate reported by a municipal bond sale reporting service on the day the loan is authorized.

Assumptions

Under current financial conditions, reserve funds invested in a public project are likely to earn a higher rate of return than they are currently earning. Self-funding of bond projects reduces issuance expenses usually paid to bonding attorneys, financial consultants, and rating agencies.

Fiscal Impact

To the extent that the new provisions reduce bond issuance expenses for cities or result in greater investment earnings on reserve funds, SF 387 may have a positive fiscal impact for cities. The extent to which the new provisions will be used and will result in reduced expenses and greater earnings is unknown.

Source

City Administrator, City of Cedar Falls
LSA Analysis

/s/ Holly M. Lyons

March 13, 2013

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
